

ARENAC EASTERN SCHOOL DISTRICT
Twining, Michigan

FINANCIAL STATEMENTS
June 30, 2008

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ARENAC EASTERN SCHOOL DISTRICT
TWINING, MICHIGAN
JUNE 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

November 13, 2008

To the Board of Education
Arenac Eastern School District
Twining, Michigan

We have audited the accompanying financial statements of the governmental activities of Arenac Eastern School District, as of and for the year ended June 30, 2008, which comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Arenac Eastern School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Arenac Eastern School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Arenac Eastern School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008, on our consideration of Arenac Eastern School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provenzano, DeLuca & Thomas, P.C.

Certified Public Accountants

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the annual financial report presents management's discussion and analysis of Arenac Eastern School District's performance during the fiscal year ending June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the School District.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements are divided into two sections. The District-Wide Financial Statements provide information about the activities of the School District as a whole. They present a year-end aggregate view and a longer-term view of the District's finances. All funds and capital assets are combined. The Governmental Fund Statements provide more detail showing the year's activity by fund. They also show the amount available to finance future programs. Governmental Fund Statements do not include long-term items such as capital assets or long-term debt.

District-Wide Financial Statements

The District-Wide Financial Statements appear first in the financial statements. They present information on the School District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the School District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. However, the goal of the School District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Governmental Fund Statements

The Governmental Fund Statements provide detailed information on a fund level instead of the School District as a whole. Some funds are required to be established by State law and by bond covenants. Many of the other funds are created to help control and manage money for a particular purpose or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the School District focus on showing how money flows into and out of funds and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the School District. This helps determine whether more or fewer financial resources are available for future programs. An accounting method called modified accrual accounting is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The relationship between District-Wide Financial Statements and Governmental Fund Statements will be reconciled later in the annual report.

Agency and Trust Accounts

The School District acts as an agent for various student activity funds. These net assets are reported in separate statements. We exclude these net assets from the School District's other financial statement because we cannot use these assets to finance our operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement-Analysis of Overall Financial Position and Results of Operations

Table 1 provides a summary of our net assets as of June 30, 2008 and 2007. They represent the School District as a whole.

Table 1		
Assets	2008	2007
Current and other assets	\$ 1,179,782	\$ 1,155,241
Capital assets -		
Net of accumulated depreciation	2,998,130	3,155,762
Total assets	4,177,912	4,311,003
Liabilities		
Current liabilities	743,514	626,807
Long-term liabilities	2,176,751	2,419,465
Total liabilities	2,920,265	3,046,272
Net assets		
Invested in capital assets -		
net of related debt	763,130	707,416
Restricted for debt service	68,014	55,933
Restricted for capital projects	15,841	21,336
Unrestricted & undesignated	410,662	480,046
Total Net Assets	\$ 1,257,647	\$ 1,264,731

The School District's net assets were \$1,257,647 as of June 30, 2008. Capital assets, net of related debt, totaled \$763,130. This represents the original cost, less depreciation of the School District's capital assets, less long-term debt, related to capital assets. Restricted net assets of \$68,014 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets was unrestricted. The \$410,662 in unrestricted net assets of government activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement-Analysis of Overall Financial Position and Results of Operations (continued)

Table 2 provides a summary of the results of operations for the fiscal year 2008 and 2007.

Table 2		
Revenue	2008	2007
Program revenue		
Charges for services	\$ 71,794	\$ 69,483
Grants and contributions	599,992	566,217
General revenue		
Property taxes	565,826	513,247
State foundation allowance	2,176,493	2,280,909
Other	134,055	63,278
Total revenue	3,548,160	3,493,134
Function/Program expenses		
Instruction	2,048,718	1,929,200
Support services	1,030,941	952,290
Food services	165,662	169,920
Athletics	53,226	52,046
Interest & misc. expense on long-term debt	87,828	91,409
Depreciation (unallocated)	168,869	204,902
Total expenses	3,555,244	3,399,767
Increase (decrease) in Net Assets	\$ (7,084)	\$ 93,367

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$3,555,244. Certain activities were partially funded from those who benefited from the programs \$71,794 or by other governments and organizations that subsidized certain programs with grants and categoricals, \$599,992. We paid for the remaining "public benefit" portion of our governmental activities with \$565,826 in taxes, \$2,176,493 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net assets of \$7,084 as compared to an increase of \$93,367 in the previous year. Net assets decreased primarily as a result of ongoing operations in the School District.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement-Analysis of Overall Financial Position and Results of Operations (continued)

As discussed above, the net cost shows the financial burden that was placed on the State and the Arenac Eastern School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

School District's Funds

As the School District completed this year, the general fund reported a fund balance of \$596,160, which is a decrease of \$83,257 from last year. The decrease is attributable to rising costs to operate the school while student count has decreased.

The special revenue fund balance includes athletic and food service. The athletic fund has remained relatively stable. The food service fund balance decreased by \$8,248. The decrease in the fund balance was the result of capital outlay expenditures in the current year.

The debt service fund reported a fund balance of \$67,967, which is an increase of \$12,034 from last year. Millage rates are determined annually to ensure that the School District accumulates sufficient funds to pay annual bond issue-related debt service. The fund balance in the debt service fund is reserved since it can only be used to pay debt service obligations.

The capital projects fund balance decreased by \$5,495 to \$15,841. The fund balance in the capital projects fund is reserved for future capital projects.

Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to June 30, the end of the current fiscal year. Over the course of the year, the District revises its budget to reflect changes in revenues and expenditures. For fiscal year 2007-08 the budget was amended in June of 2008. A budgetary comparison schedule showing the school district's original budget and final amended budget amounts compared with actual accounts for revenue and expenditures is provided in required supplemental information of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Original Budget

The final revenue budget for the general fund was increased by \$168,705 from the original budget. Significant increases are as follows:

- State revenue was increased by \$76,247 in anticipation of additional 31a and special education funding.
- Incoming transfers and other revenue were increased to account for the sale of land.

Management believes that none of the variances between the first and final budget for expenditures were significant.

Actual vs. Final Budget

The significant variances in the final revenue budget as compared to actual results are as follows:

- The variance of \$70,904 in state revenue is due to less 31a revenue recognized. These funds were not spent in the current year and will be carried over to the 2008-2009 fiscal year.
- Federal revenue was \$60,385 less than anticipated. This variance was due to less Title I and Title II funds expended and therefore not recognized as revenue.

The final expenditure results were \$92,765 less than anticipated. The most notable variance is in the added need category and is directly related to the variance in State and Federal revenue.

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets

As of June 30, 2008, the School District has \$2,998,130 in capital assets including land improvements, buildings, buses, vehicles, technology, furniture and equipment, less depreciation.

No capital projects have been budgeted for the 2008-2009 school year.

	2008	2007
Land Improvements	\$ 103,400	\$ 103,400
Buildings	4,652,161	4,646,531
Buses and other vehicles	256,062	305,196
Technology	404,039	404,039
Furniture and equipment	684,102	678,495
	<u>6,099,764</u>	<u>6,137,661</u>
Total Capital Assets	6,099,764	6,137,661
Less accumulated depreciation	<u>3,101,634</u>	<u>2,981,899</u>
Net Capital Assets	<u>\$ 2,998,130</u>	<u>\$ 3,155,762</u>

Debt Activity

As of June 30, 2008, the School District had \$2,258,346 in General Obligation Bonds and Durant bonds outstanding versus \$2,448,346 in the previous year. Additional debt includes \$41,230 in compensated absences for vacation and sick pay leave and \$120,875 in retirement incentives.

	2008	2007
Governmental Activities		
Bonds	\$ 2,258,346	\$ 2,448,346
Accrued compensated absences	41,230	40,244
Retirement incentives	120,875	167,375
Totals	<u>\$ 2,420,451</u>	<u>\$ 2,655,965</u>

ARENAC EASTERN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Economic Conditions Affecting Next Year's Budget

The District's student enrollment has been declining each year. The blended student count in 2007-2008 was 349. The student count from the September 2008 count was down to 285. This will have a direct impact on the revenue received from the State.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Rocky Aldrich
Superintendent
Arenac Eastern School District
200 Smalley Street
Twining, MI 48766
989 867-4234

BASIC FINANCIAL STATEMENTS

ARENAC EASTERN SCHOOL DISTRICT
DISTRICT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets	
Cash	\$ 560,188
Inventories	3,398
Due from other governmental units	604,243
Other receivables	9,457
Prepaids	2,496
Capital assets less accumulated depreciation	2,998,130
Total Assets	<u>4,177,912</u>
Liabilities	
Current liabilities	
Accounts payable	137,991
Accruals	230,219
Deferred revenue	131,604
Bonds payable, due within one year	197,200
Retirement incentives, due within one year	46,500
Long-term liabilities	
Bonds payable, due in more than one year	2,061,146
Retirement incentives, due in more than one year	74,375
Compensated absences, due in more than one year	41,230
Total Liabilities	<u>2,920,265</u>
Net Assets	
Invested in capital assets net of related debt	763,130
Restricted for debt service	68,014
Restricted for capital projects	15,841
Unrestricted & undesignated	410,662
Total Net Assets	<u>\$ 1,257,647</u>

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
DISTRICT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 2,048,718	\$ -	\$ 480,515	\$ (1,568,203)
Support services	1,030,941	-	9,220	(1,021,721)
Food services	165,662	45,830	110,257	(9,575)
Athletics	53,226	25,964	-	(27,262)
Interest & misc. expense on long-term debt	87,828	-	-	(87,828)
Depreciation (unallocated)	168,869	-	-	(168,869)
Totals	<u>\$ 3,555,244</u>	<u>\$ 71,794</u>	<u>\$ 599,992</u>	<u>(2,883,458)</u>

General revenues:

Taxes:

Property taxes levied for general purposes	275,943
Property taxes levied for debt service	289,883
State aid - unrestricted	2,176,493
Interest	10,908
Other	40,502
Subtotal General Revenues	<u>2,793,729</u>

Excess (deficiency) of revenues over expenses before
special items (89,729)

Special items-gain on sale of unimproved land	71,073
Extraordinary item-insurance proceeds	11,572
Total general revenues, special and extraordinary items	<u>2,876,374</u>

Change in Net Assets (7,084)

Net Assets - Beginning of Year 1,264,731

Net Assets - End of Year \$ 1,257,647

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008

	General	Food Service	Athletic	Debt Service	Capital Projects	Totals
<u>Assets</u>						
Cash	\$ 463,565	\$ 46,248	\$ 14,898	\$ 12,866	\$ 22,611	\$ 560,188
Inventory	-	3,398	-	-	-	3,398
Due from other funds	52,684	-	-	55,148	-	107,832
Accounts receivable	9,230	227	-	-	-	9,457
Due from other governmental units	603,058	1,185	-	-	-	604,243
Prepaid expenditures	2,496	-	-	-	-	2,496
Total Assets	<u>\$ 1,131,033</u>	<u>\$ 51,058</u>	<u>\$ 14,898</u>	<u>\$ 68,014</u>	<u>\$ 22,611</u>	<u>\$ 1,287,614</u>
<u>Liabilities and Fund Balance</u>						
Liabilities						
Accounts payable	\$ 117,902	\$ 20,042	\$ -	\$ 47	\$ -	\$ 137,991
Due to other funds	55,148	31,016	14,898	-	6,770	107,832
Deferred revenue	131,604	-	-	-	-	131,604
Accrued expenditures	230,219	-	-	-	-	230,219
Total Liabilities	<u>534,873</u>	<u>51,058</u>	<u>14,898</u>	<u>47</u>	<u>6,770</u>	<u>607,646</u>
Fund Balance						
Reserved for debt retirement	-	-	-	67,967	-	67,967
Reserved for prepaid expenditures	2,496	-	-	-	-	2,496
Undesignated	593,664	-	-	-	15,841	609,505
Total Fund Balance	<u>596,160</u>	<u>-</u>	<u>-</u>	<u>67,967</u>	<u>15,841</u>	<u>679,968</u>
Total Liabilities and Fund Balance	<u>\$ 1,131,033</u>	<u>\$ 51,058</u>	<u>\$ 14,898</u>	<u>\$ 68,014</u>	<u>\$ 22,611</u>	<u>\$ 1,287,614</u>

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO
DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds \$ 679,968

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	6,099,764
Accumulated depreciation is	(3,101,634)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	(2,258,346)
Compensated absences	(41,230)
Retirement incentives	(120,875)

Total Net Assets - Governmental Activities (District Wide)	<u>\$ 1,257,647</u>
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The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	General	Food Service	Athletic	Debt Service	Capital Projects	Totals
Revenue						
Local	\$ 350,290	\$ 45,993	\$25,964	\$ 289,863	\$ 135	\$ 712,245
State	2,469,521	11,506	-	-	-	2,481,027
Federal	157,707	98,751	-	-	-	256,458
Other	98,430	-	-	-	-	98,430
Total Revenue	<u>3,075,948</u>	<u>156,250</u>	<u>25,964</u>	<u>289,863</u>	<u>135</u>	<u>3,548,160</u>
Expenditures						
Instruction						
Basic programs	1,717,618	-	-	-	-	1,717,618
Added needs	376,613	-	-	-	-	376,613
Support services						
Pupil	88,206	-	-	-	-	88,206
Instructional staff	28,033	-	-	-	-	28,033
General administration	187,395	-	-	-	-	187,395
School administration	152,459	-	-	-	-	152,459
Business	69,025	-	-	-	-	69,025
Operation and maintenance	351,615	-	-	-	-	351,615
Pupil transportation services	148,653	-	-	-	-	148,653
Other	11,162	-	-	-	-	11,162
Capital Outlay	-	-	-	-	5,630	5,630
Debt Service	-	-	-	277,829	-	277,829
Food services	-	165,662	-	-	-	165,662
Athletic	-	-	53,226	-	-	53,226
Total Expenditures	<u>3,130,779</u>	<u>165,662</u>	<u>53,226</u>	<u>277,829</u>	<u>5,630</u>	<u>3,633,126</u>
Excess (Deficiency) of Revenues Over Expenditures	(54,831)	(9,412)	(27,262)	12,034	(5,495)	(84,966)
Other Financing Sources (Uses)						
Operating transfers in	-	1,164	27,262	-	-	28,426
Operating transfers out	(28,426)	-	-	-	-	(28,426)
Total Other Financing Sources (Uses)	<u>(28,426)</u>	<u>1,164</u>	<u>27,262</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(83,257)	(8,248)	-	12,034	(5,495)	(84,966)
Fund Balances - Beginning of Year	679,417	8,248	-	55,933	21,336	764,934
Fund Balances - End of Year	<u>\$ 596,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,967</u>	<u>\$ 15,841</u>	<u>\$ 679,968</u>

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Governmental Funds \$ (84,966)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are capitalized
and depreciated over their estimated useful lives.

Depreciation expense	(168,869)
Capital outlay	11,237

The issuance of long-term debt (e.g. bonds) provides current financial
resources to governmental funds, while the repayment of the principal
of long-term debt consumes the current financial resources of
governmental funds. Neither transaction has any effect on net assets.

Repayment of bond principal	190,000
Retirement incentives	46,500

In the statement of activities, certain expenses (retirement
incentives, compensated absences) are measured by the
amounts earned during the year. The governmental funds
measure the financial resources used (paid). This year,
the amount of these items paid exceeded the amounts earned.

Compensated absences	(986)
Change in Net Assets of Governmental Activities (District Wide)	<u>\$ (7,084)</u>

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

Agency Funds

Assets

Cash, student organizations	\$ 49,833
Total Assets	<u>\$ 49,833</u>

Liabilities

Due to student organizations	\$ 49,833
Total Liabilities	<u>\$ 49,833</u>

The accompanying notes are an integral part of these financial statements.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Arenac Eastern School District (the "School District") operates under an elected Board of Education and provides educational services to approximately 349 students.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

B. District-Wide Statements

The District-Wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District's government wide activities are considered to be governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included as program revenues are reported instead as general revenue.

The District-Wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The District-Wide approach is focused more on the sustainability of the School District as an entity and the change in the District's net assets from the current year's activities.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Governmental Statements

The accounts of the School District are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the School District:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the District.

General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The food service and athletic funds are special revenue funds.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support School District programs.

The School District has opted to display information for all funds without regard to the criteria for determination of major funds. The School District's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the District-Wide statements.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are still recognized when incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received. In general, outstanding balances between funds are reported as "due to/from other funds".

Inventories

Inventories consist of expendable supplies held for the District's use and are carried at cost using the first-in, first-out method.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Prepaid

Prepaid amounts consist of payments for which the District will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The School District does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Buildings	50 years
Land improvements	20 years
Buses and other vehicles	8 years
Technology	5 years
Furniture and equipment	10-20 years

Accounts Payable

Accounts payable consist of items from which the District benefited during the current fiscal year but has not yet paid.

Accrued Expenditures

Accrued liabilities consist of amounts due on employee's contracts that are due and payable for the current fiscal year and items related to salaries payable, specifically the District's portion of FICA and Medicare taxes and retirement contributions.

Deferred Revenue

Deferred revenue represents amounts for which the District has received or is due to receive but has not yet earned. Deferred revenue is usually caused by the receipt of certain categorical funds that are not expended by the close of the fiscal year. The revenues are deferred until the proceeds have been fully expensed/expended.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Long-Term Liabilities

Bonds payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements or the refinancing of previously issued obligations. Compensated absences represent accumulated unpaid vacation and sick leave as earned by employees. The accumulated benefit is payable to the employee upon termination of employment. The District has concluded that estimating a current portion of compensated absences would be impossible; therefore, no portion is recorded as such. Retirement incentives are amounts due to former employees as negotiated at retirement.

Inter-fund Activity

Inter-fund activity is reported as reimbursements or transfers. Reimbursements are reported as inter-fund receivables and payables and are eliminated upon consolidation. Transfers are eliminated upon consolidation.

NOTE 2--Stewardship, Compliance, and Accountability

The School District is required to adopt an annual budget before the beginning of the fiscal year for the general fund, food service fund, and the athletic fund. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The District's Superintendent submits to the Board of Education a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Any revisions that alter functional expenditure lines of any fund must be approved by the Board of Education.
4. Budgeted amounts shown in the supplemental information reflect amendments through June 30.
5. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability (continued)

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. Budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The School District is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The District is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

All cash is held by federally insured financial institutions. The FDIC insures up to \$100,000 in demand deposits; however, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as a separate deposit for the \$100,000 limitation. Subsequent to the year ended June 30, 2008 the FDIC insured amount was raised to \$250,000.

A summary of bank cash is as follows:

Cash	Total	Insured	Collateralized	Uninsured
				Uncollateralized
General Fund	\$ 554,953	\$ 100,000	\$ -	\$ 454,953
Food Service	46,248	-	-	46,248
Athletic	14,897	-	-	14,897
Debt Service	12,866	-	-	12,866
Capital Projects	22,609	-	-	22,609
Agency	50,248	-	-	50,248
Total	<u>\$ 701,821</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 601,821</u>

The investment policy of the District is to maximize the returns on the District's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets subject to depreciation				
Land Improvements	\$ 103,400	\$ -	\$ -	\$ 103,400
Buildings	4,646,531	5,630	-	4,652,161
Buses	305,196	-	49,134	256,062
Technology	404,039	-	-	404,039
Furniture and equipment	678,495	5,607	-	684,102
Total Capital Assets	6,137,661	11,237	49,134	6,099,764
Accumulated depreciation				
Land Improvements	93,850	4,150	-	98,000
Buildings	1,614,484	118,060	-	1,732,544
Buses	290,314	6,548	49,134	247,728
Technology	387,143	6,961	-	394,104
Furniture and equipment	596,108	33,150	-	629,258
Total Accumulated Depreciation	2,981,899	168,869	49,134	3,101,634
Total Net Capital Assets	\$ 3,155,762	\$ (157,632)	\$ -	\$ 2,998,130

Depreciation expense was not charged to activity as the District considers its capital assets to impact multiple activities and allocation is not practical.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Inter-fund – Receivables, Payables, and Transfers

The makeup of inter-fund balances and transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 27,262	Athletic	\$ 27,262
General Fund	1,164	Food Service	1,164
Total	<u>\$ 28,426</u>	Total	<u>\$ 28,426</u>
Due From		Due To	
General Fund	\$ 14,898	Athletic	\$ 14,898
General Fund	31,016	Food Service	31,016
General Fund	6,770	Capital Projects	6,770
Debt service	55,148	General Fund	55,148
Total	<u>\$ 107,832</u>	Total	<u>\$ 107,832</u>

The transfers from the general fund to the food service and athletic funds were to subsidize those programs.

NOTE 6--Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term debts include compensated absences and retirement incentives.

Long-term debt activity is summarized as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Governmental Activities					
Durant Bonds	\$ 23,346	\$ -	\$ -	\$ 23,346	\$ 2,200
Compensated Absences	40,244	986	-	41,230	-
Building and Site Bonds	1,660,000	-	55,000	1,605,000	65,000
2004 Refunding Bonds	765,000	-	135,000	630,000	130,000
Retirement incentives	69,375	-	22,500	46,875	22,500
Retirement incentives 2006	98,000	-	24,000	74,000	24,000
Totals	<u>\$ 2,655,965</u>	<u>\$ 986</u>	<u>\$ 236,500</u>	<u>\$ 2,420,451</u>	<u>\$ 243,700</u>

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental bonds are as follows:

For Year(s) Ended June 30,	Compensated Absences	Retirement Incentives	Bond Principal	Interest	Total
2009	\$ 41,230	\$ 46,500	\$ 197,200	\$ 83,366	\$ 368,296
2010	-	46,500	202,305	78,419	327,224
2011	-	25,875	223,662	77,508	327,045
2012	-	2,000	217,529	66,387	285,916
2013	-	-	227,650	59,142	286,792
2014-2018	-	-	975,000	179,726	1,154,726
2019	-	-	215,000	9,782	224,782
Totals	<u>\$ 41,230</u>	<u>\$ 120,875</u>	<u>\$ 2,258,346</u>	<u>\$ 554,330</u>	<u>\$ 2,974,781</u>

Governmental Activities

General obligation bonds consist of the following:

2004 serial bonds due in annual installments of \$125,000 to \$140,000 through May 1, 2013; interest at 1.0% to 3.0%	\$ 630,000
2004 serial bonds due in annual installments of \$30,000 to \$215,000 through May 1, 2019; interest at 2.20% to 4.55%	1,605,000
1998 serial bonds due in annual installments of \$1,743 to \$4,053 through May 15, 2013; interest at 8.0%	23,346
Total Bonded Debt	<u>\$ 2,258,346</u>

For the year ended June 30, 2008, the total interest paid on bonded debt was \$87,828.

NOTE 7--Durant Bonds

During 1998, the District elected to bond so they could receive half of its Durant settlement. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The District has pledged its right to receive these future appropriations as a condition of receiving the bond proceeds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the Michigan legislature fails to appropriate the funds, the District is under no obligation for payment.

ARENAC EASTERN SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. The District has joined together with other school districts in Michigan to form SET-SEG, a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The district pays an annual premium to SET-SEG for its property and liability insurance coverage. The agreement for formation of SET-SEG provides that SET-SEG will be self-sustaining through member premiums.

NOTE 9--Pension Plan

The School District's defined benefit pension plan provides retirement, survivor and disability benefits to its employees. The District participates in the Michigan Public School Employees Retirement System (MPERS), a cost sharing multiple-employer, statewide plan governed by the State of Michigan. Benefit provisions are established by state statute. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the MPERS Directors, PO Box 30673, Lansing, Michigan 48909 or by calling (517) 322-6235.

Funding Policy

The School District is required to contribute at an actuarially determined rate; the rate at June 30, 2008 was 16.72% of covered payroll. Employees hired before January 1, 1990 contribute 3.9% of their gross pay. Employees hired January 1, 1990 or later contribute between 3% and 4.3%.

The contribution requirements of plan members are established and may be amended by the State of Michigan. The District's contributions to MPERS for the current year and the preceding two years were \$290,807, \$282,947, and \$278,121, respectively.

NOTE 10--Reserved Fund Balance

The District has reserved \$2,496 in the general fund for prepaid expenditures and \$67,967 for debt retirement in the debt service fund.

REQUIRED SUPPLEMENTAL INFORMATION

ARENAC EASTERN SCHOOL DISTRICT
BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund			Special Revenue Funds (Food Service and Athletic)			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Variance
Revenue							
Local	\$ 305,353	\$ 317,953	\$ 350,290	\$ 32,337	\$ 86,738	\$ 86,688	\$ 71,957
State	2,464,178	2,540,425	2,469,521	(70,904)	9,357	9,357	11,506
Federal	218,092	218,092	157,707	(60,385)	107,897	107,897	98,751
Incoming transfers and other	32,877	112,735	98,430	(14,305)	35,553	29,458	28,426
Total Revenues	3,020,500	3,189,205	3,075,948	(113,257)	239,545	233,400	210,640
Expenditures							
Instruction							
Basic programs	1,677,882	1,694,127	1,717,618	23,491	-	-	-
Added needs	476,894	454,302	376,613	(77,689)	-	-	-
Support Services							
Pupil	90,302	90,996	88,206	(2,790)	-	-	-
Instructional staff	40,125	34,677	28,033	(6,644)	-	-	-
General administration	189,666	188,466	187,395	(1,071)	-	-	-
School administration	148,010	144,722	152,459	7,737	-	-	-
Business	56,782	80,572	69,025	(11,547)	-	-	-
Operation and maintenance	325,080	361,201	351,615	(9,586)	-	-	-
Pupil transportation services	145,199	157,278	148,653	(8,625)	-	-	-
Other	6,954	16,171	11,162	(5,009)	-	-	-
Food service	-	-	-	-	176,205	176,205	165,661
Athletic activities	-	-	-	-	61,893	55,748	53,227
Outgoing transfers	35,553	29,458	28,426	(1,032)	-	-	-
Total Expenditures	3,192,447	3,251,970	3,159,205	(92,765)	238,098	231,953	218,888
Excess (Deficiency) of Revenues Over Expenditures	(171,947)	(62,765)	(83,257)	(20,492)	1,447	1,447	(8,248)
Fund Balance - Beginning of Year	679,417	679,417	679,417	-	8,248	8,248	8,248
Fund Balance - End of Year	\$ 507,470	\$ 616,652	\$ 596,160	\$ (20,492)	\$ 9,695	\$ 9,695	\$ (9,695)

ADDITIONAL SUPPLEMENTAL INFORMATION

ARENAC EASTERN SCHOOL DISTRICT
SCHEDULES OF OUTSTANDING BONDED INDEBTEDNESS
JUNE 30, 2008

2004 Issue \$1,185,000				
Interest Rate: 1.0 to 3.0%				
Year Ending June 30,	Annual Principal 1-May	Semiannual Interest Payment		Total Fiscal Year Requirement
		1-Nov	1-May	
2009	\$ 130,000	\$ 8,256	\$ 8,256	\$ 146,512
2010	130,000	6,859	6,859	143,718
2011	125,000	5,332	5,331	135,663
2012	125,000	3,675	3,675	132,350
2013	120,000	1,800	1,800	123,600
Totals	<u>\$ 630,000</u>	<u>\$ 25,922</u>	<u>\$ 25,921</u>	<u>\$ 681,843</u>

2004 Issue \$1,730,000				
Interest Rate: 2.20 to 4.55%				
Year Ending June 30,	Annual Principal 1-May	Semiannual Interest Payment		Total Fiscal Year Requirement
		1-Nov	1-May	
2009	\$ 65,000	\$ 33,139	\$ 33,139	\$ 131,278
2010	70,000	32,115	32,115	134,230
2011	85,000	30,925	30,925	146,850
2012	90,000	29,395	29,395	148,790
2013	105,000	27,708	27,708	160,416
2014	175,000	25,660	25,660	226,320
2015	185,000	22,116	22,116	229,232
2016	195,000	18,278	18,278	231,556
2017	205,000	14,134	14,134	233,268
2018	215,000	9,675	9,675	234,350
2019	215,000	4,891	4,891	224,782
Totals	<u>\$ 1,605,000</u>	<u>\$ 248,036</u>	<u>\$ 248,036</u>	<u>\$ 2,101,072</u>

ARENAC EASTERN SCHOOL DISTRICT
SCHEDULES OF OUTSTANDING BONDED INDEBTEDNESS
JUNE 30, 2008

1998 Issue (Durant) \$39,539

Interest Rate: 8.0%

Year Ending June 30,	Annual Principal 15-May	Semiannual Interest Payment		Total Fiscal Year Requirement
		15-Nov	15-May	
2009	\$ 2,200	\$ -	\$ 576	\$ 2,776
2010	2,305	-	471	2,776
2011	13,662	-	4,995	18,657
2012	2,529	-	247	2,776
2013	2,650	-	126	2,776
Totals	<u>\$ 23,346</u>	<u>\$ -</u>	<u>\$ 6,415</u>	<u>\$ 29,761</u>
Total Bonded Indebtedness	<u>\$ 2,258,346</u>	<u>\$ 273,958</u>	<u>\$ 280,372</u>	<u>\$ 2,812,676</u>



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

November 13, 2008

To the Board of Education
Arenac Eastern School District
Twining, Michigan

We have audited the financial statements of the governmental activities of Arenac Eastern School District as of and for the year ended June 30, 2008, which comprise Arenac Eastern School District's basic financial statements, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arenac Eastern School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arenac Eastern School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Arenac Eastern School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Arenac Eastern School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Arenac Eastern School District's financial statements that is more than inconsequential will not be prevented or detected by Arenac Eastern School District's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs at item 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Arenac Eastern School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arenac Eastern School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District's responses and, accordingly, we express no opinion on it.

To the Board of Education
Arenac Eastern School District
Page Three

This report is intended solely for the information and use of management and the Board of Education and is not intended and should not be used by anyone other than these specified parties.

Gardner, Provencio, Schauman & Thomas, P.C.

Certified Public Accountants

ARENAC EASTERN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Audit Findings

Reference

Number

Findings

Finding 2008-1

Criteria

The School District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonable adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in September, the District's funds were not effectively closed out and in a proper state for audit. Preliminary trial balances forwarded to the auditor included the following: accounts payable, payroll and the related accruals, accounts receivable, and interfund transfers had not been recorded. Cash accounts were found not to have been reconciled since March of 2008 and one cash account was significantly overdrawn. Federal grants had not been requested and one quarterly tax reporting to the IRS had not been completed.

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. In addition, there were four different people performing the Business Manager function.

Effect

As a result of this condition, the School District was not able to produce, in a timely manner, accurate financial information, which resulted in the audit being delayed. In addition, internal controls could not be relied upon and audit procedures were expanded.

Recommendation

The District should identify the qualifications necessary for an effective Business Manager and assign an appropriate individual to perform the necessary duties in order to provide timely and accurate financial information.

Management's Response

The District has had four different Business Managers in the 2007-2008 school year. In September of 2008, the District hired a certified public accounting firm to prepare the books for audit for the 2007-2008 fiscal year. Upon completion of that task, the firm was hired to conduct the year round operations of the District's business office. The CPA firm is currently managing the business affairs of the District.

ARENAC EASTERN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>
Finding	2008-2
	<u>Criteria</u> The School District is responsible for maintaining an appropriate segregation of duties.
	<u>Condition</u> During our audit we noted the Business Manager position makes bank deposits, reconciles the bank accounts, makes journal entries, processes accounts payables and makes bank transfers.
	<u>Cause</u> Due to the size of the District and funding, the staff in the Business Office is limited.
	<u>Effect</u> The District has an inappropriate segregation of duties.
	<u>Recommendation</u> The District should mitigate risk as much as possible by including the Superintendent and School Board in the reviewing of monthly financial information to include review of invoices and the bank reconciliation.
	<u>Management's Response</u> Our District is a small rural district of only 285 students. We have contracted with a CPA firm to conduct all facets of our business office operations. The CPA firm has just recently hired an additional person to process accounts payable. In addition, the administrative assistant now receives and organizes all invoices for payment and verifies with the Superintendent the validity of any unusual or questionable invoices.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
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Heather A. Thomas

November 13, 2008

To the Board of Education
Arenac Eastern School District
Twining, Michigan

We appreciate the opportunity to conduct your audit this year. As we've discussed with you previously, we are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the new auditing standard: **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit**. The new standard applies to the audits of any financial statements with periods ending on or after December 15, 2006.

In planning and performing our audit of your financial statements for period ending June 30, 2008, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses that are discussed below. It is important to note that control deficiencies are not necessarily problems you will choose to address; however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks. In this year's audit, we identified the following:

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control.

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. We believe that the following deficiencies constitute material weaknesses:

Finding 2008-1

Criteria

The School District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonable adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in September, the District's funds were not effectively closed out and in a proper state for audit. Preliminary trial balances forwarded to the auditor included the following: accounts payable, payroll and the related accruals, accounts receivable, and interfund transfers had not been recorded. Cash accounts were found not to have been reconciled since March of 2008 and one cash account was significantly overdrawn. Federal grants had not been requested and one quarterly tax reporting to the IRS had not been completed.

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. In addition, there were four different people performing the Business Manager function.

Effect

As a result of this condition, the School District was not able to produce, in a timely manner, accurate financial information, which resulted in the audit being delayed. In addition, internal controls could not be relied upon and audit procedures were expanded.

Recommendation

The District should identify the qualifications necessary for an effective Business Manager and assign an appropriate individual to perform the necessary duties in order to provide timely and accurate financial information.

Management's Response

The District has had four different Business Managers in the 2007-2008 school year. In September of 2008, the District hired a certified public accounting firm to prepare the books for audit for the 2007-2008 fiscal year. Upon completion of that task, the firm was hired to conduct the year round operations of the District's business office. The CPA firm is currently managing the business affairs of the District.

Finding 2008-2

Criteria

The School District is responsible for maintaining an appropriate segregation of duties.

Condition

During our audit we noted the Business Manager position makes bank deposits, reconciles the bank accounts, makes journal entries, processes accounts payables and makes bank transfers.

Cause

Due to the size of the District and funding, the staff in the Business Office is limited.

Effect

The District has an inappropriate segregation of duties.

Arenac Eastern School District
November 13, 2008
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Recommendation

The District should continue to mitigate risk as much as possible by continuing to include the Superintendent and School Board in the reviewing of monthly financial information to include review of invoices and the bank reconciliation.

Management's Response

Our District is a small rural district of only 285 students. We have contracted with a CPA firm to conduct all facets of our business office operations. The CPA firm has just recently hired an additional person to process accounts payable. In addition, the administrative assistant now receives and organizes all invoices for payment and verifies with the Superintendent the validity of any unusual or questionable invoices.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for remedying them if you would like to do so. If you would like to set up a meeting to discuss this communication or your organization's internal controls, please feel free to contact me.

We appreciate the opportunity to conduct your organization's audit.

Sincerely,

Gardner, Provenzano, Schauman & Thomas, P.C.

Gardner, Provenzano, Schauman & Thomas, P.C.